

## Suez

Price EUR17.17

2015 earnings publication, first take

Fair Value EUR19 (+11%)

BUY-Top Picks

Bloomberg	SEV FP
Reuters	SEVI.PA
12-month High / Low (EUR)	19.0 / 15.1
Market Cap (EURm)	9,314
Ev (BG Estimates) (EURm)	20,007
Avg. 6m daily volume (000)	1 331
3y EPS CAGR	18.6%

Suez has posted 2015 earnings ahead of expectations, with EBITDA at EUR2.75bn vs. our EUR2.65bn forecast. However, after adjusting for the positive capital gain effect, earnings were in line with estimates. For 2016, the group aims to widen its EBIT margin further despite a poor macro environment, with a key contribution from restructuring. For 2017, the group reiterated its EUR3bn EBITDA target. Positive, but no major surprises, as expected.

## ANALYSIS

- Main 2015 metrics:** EBITDA came out **EUR2.75bn**, up **4.1%** compared with last year, and ahead of our both consensus and our estimates (respectively EUR2.62bn and EUR2.65bn) while EBIT stood at **EUR1.38bn**, up **10.1%** compared with 2014 while we anticipated **EUR1.26bn** and the consensus **EUR1.24bn**. However, the 2015 metrics included a **EUR131m** capital gain on the revaluation of the interest in Chongqing Water Group, linked to the set-up of Derun. Excluding this positive impact implies 2015 EBITDA of **EUR2.62bn**, in line with consensus. Net reported income was almost flat compared with last year, at **EUR408m** while we anticipated **EUR401m**. Net debt surged compared with 2014 to **EUR8bn** due to a negative FX effect, and the acquisition of Sembsita's minorities. Cost savings contributed positively to EBITDA by **EUR160m**. In all, 2015 metrics restated for the capital gain (+), and negative one-off elements (-) **were in line with our expectations**.
- What about 2016 and beyond?** As for 2016, Suez aims to generate organic sales growth of **2%**, in line with our **+2.2%** forecast, while generating EBIT growth higher than sales growth without mentioning a range. In our model we were assuming organic EBIT growth of **+3.6%** leading to **EUR1.3bn**. Based on 2015 restated EBIT (adjusted for the EUR131m capital gain and EUR20m in exceptional water volumes during summer2015) this would imply **2016 EBIT of at least EUR1.255bn, whereas we expect EUR1.3bn**. The group reiterated its **EUR3bn EBITDA target for 2017**, a target which still assumes an important M&A contribution, while mentioning it will distribute a dividend **≥ EUR0.65/share** vs. EUR0.65 in 2015. As expected, this guidance is based on stable industrial production in Europe in 2016 and stable commodity prices relative to the budget assumptions. Most of earnings will therefore stem from restructuring or M&A.
- Conclusion:** We expect a cautious message on 2016 from Suez' management during the conference call. The acceleration in the 2015 Compass programme is clearly positive, highlighting the fact that the group has the ability to further reduce costs, like Veolia. We hope to get more details during the conference call on potential M&A deals. We are sticking to our **Buy rating with a FV unchanged at EUR19/share**.

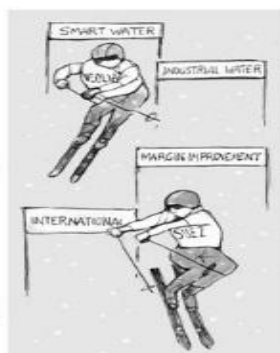
## VALUATION

- At the current share price, Suez trades at 19.4x its 2016e EPS and offers a 3.8% yield
- Buy, FV @ EUR19

## NEXT CATALYSTS

- Conference call @ 08.45am CET (+33(0)1 76 77 22 22)

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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